



Trade Facts

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Free Trade With Central America ***Strengthening Democracy, Promoting Prosperity***

Central America: A Large and Growing Market

- The United States exported \$9 billion in goods to the five Central American countries in 2001, about the same as U.S. exports to Russia, India and Indonesia combined. U.S. exports to the region have been growing, up 42% since 1996.
- The U.S. is the main supplier of goods and services to Central American economies: 40% of total goods imports by Central America come from the United States.
- Key U.S. exports to the region include machinery and equipment; chemicals and plastics; foodstuffs including apples, corn, wheat and rice; textiles and apparel; and paper. 78% of U.S. exporters to the region are small and medium-sized businesses, and such firms generate nearly half of U.S. export value to Central America.

Strengthening Democracy, Promoting Prosperity

- In a single generation, Central America has been transformed from a region of Cold War-era conflict into an area of rising prosperity.
- Economic reform in Central America has already helped to raise incomes and fight poverty. For example, since 1991 El Salvador worked to tackle inflation, cut spending, crack down on corruption, privatize inefficient state-run businesses, and open the country to trade. As a result, per capita incomes in El Salvador grew 10 times faster in the 1990s than in the 1980s
- Free trade is about freedom, and a U.S.-Central America FTA will further strengthen nascent democracies and economic reforms through basic building blocks for long-term development, such as:
 - The rule of law
 - Open, transparent governance
 - Protection of private property rights and investments
 - Market-based competition rather than oligarchies and state monopolies
 - Beneficial regional integration

“Oppression, violence, and dictators on both the left and right have given way to a commitment to democracy in Central America... [with an FTA] we have an extraordinary opportunity to lock in economic reforms and strengthen the rule of law, good governance, and democratic institutions.”

Robert B. Zoellick
U.S. Trade Representative

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Addressing Market Access Barriers

- In the negotiations, the U.S. will seek to address high tariffs on U.S. agricultural and industrial goods, ensuring that food inspection rules are based on sound science, restrictive licensing practices, protection of intellectual property, and limits on access by U.S. service providers.
- President Bush announced his intention to explore an FTA with Central America on January 16, 2002, and notified Congress of his intention to begin free trade negotiations last autumn, following passage of Trade Promotion Authority. USTR held public hearings on November 19, 2002. The first working-level negotiating round will begin on January 27 in San Jose, Costa Rica. Eight additional negotiating rounds are planned, and talks are expected to conclude in December 2003.

Leveling the Playing Field For U.S. Products

- U.S. products face a competitive disadvantage in the region, because Central American countries have been very active in negotiating free trade agreements that do not include the United States. More than 20 trade agreements grant preferences in Central America to products from Mexico, Canada, Chile, and several South American nations.
- For example, U.S. apple growers are very interested in the Central American market. But nearly \$4 million in U.S. apples exported to Costa Rica last year paid a 15% import tariff, while Canadian apples enter Costa Rica duty-free.
- Under the Caribbean Basin Initiative (CBI) and other U.S. preference programs, U.S. tariffs on Central American goods are already low, with 74% of regional imports entering the U.S. duty-free in 2002. But one-way preference programs must be renewed periodically, while an FTA would establish a more stable environment for trade and investment. A free trade agreement would also be reciprocal, giving U.S. goods duty-free treatment.

A Key Element in America's Trade Liberalizing Strategy

- The United States seeks to liberalize trade through multilateral, regional, and bilateral initiatives. An FTA with Central America is a critical element of this strategy.
- In addition to the bilateral benefits of an FTA, the negotiation with Central America will complement the goal of completing a Free Trade Area of the Americas (FTAA) by January 2005. Negotiations on CAFTA will increase momentum toward lowering trade barriers and set a positive example for other small economies in the Western Hemisphere.
- Agreement between the U.S. and Central America on free trade would promote a greater convergence of positions at the FTAA negotiating table. Together with NAFTA and the U.S.-Chile FTA, an agreement with Central America would improve the likelihood of forging common views on a wide range of topics.